Minutes Of The Board Of Trustees
City Of Cincinnati
Retirement System
September 1, 2005

The Chairman called the meeting to order at 1:30 p.m. with the following members present:

V. Daniel Radford, Chairman
William Moller, Secretary
Dave Rager, (proxy for City Manager)
Michael Rachford
Joe Harrison
Brian Pickering
Marijane Klug

<u>Members Absent</u>
Ely Ryder
Mayor Charlie Luken
John Cranley

The Chairman called for a motion to approve the minutes of the August 4, 2005 Board Meeting. The motion was made by Mr. Moller, seconded by Ms. Klug and carried by the Board. The minutes were approved as prepared by the Secretary.

<u>BENEFITS COMMITTEE</u>

Mr. Harrison reported that the Benefits Committee met on August 25, 2005, at 2:00 p.m. in Committee Room B. Mr. Harrison presented the following report to the Board.

1. Application for Ordinary Retirement September 10, 2005: Total – 13

NO.	NAME	DEPARTMENT
41055	W. Michael Pachan	Buildings & Inspections
41307	Michael Espel	Health
43032	Carl Whitehead	Parking Facilities
43047	Christina Diersing	University of Cincinnati
43216	Peggy Casselman	University of Cincinnati
43713	Dorothy Phillips	University Hospital
43720	Catherine O'Brien	Finance
43773	Gail Soloway	Parking Facilities
46342	Ronald Kantor	Parking Facilities
502991	Denis Boudreau	Health
50957	Rose Marie Auer	RCC
61638	Sarah Plank	Water Works
41542	James Grady	MSD

2. Application for Retired Members Deaths: Total – 9
3. Application for Deferred Retirement Benefit: Total - 1

NO.	NAME	DEPARTMENT
51787	Donna Adams	Health

4. Application for Ordinary Disability Retirement: Total - 1

NO.	NAME	DEPARTMENT
46396	Ronn Rucker	Health

Mr. Moller reported that the first meeting on the Medicare Part D Program was mailed to retirees in July 2005. Mr. Moller also indicated that a second mailing would be sent out to Medicare eligible members in September 2005.

Mr. Harrison moved that the Board accept the report of the Benefits Committee. The motion was seconded by Mr. Pickering and carried by the Board.

INVESTMENT COMMITTEE

Mr. Moller reported that the Investment Committee met on August 5, 2005. At that meeting, Mr. John Rogers, CEO of Ariel Capital Management (the small/mid-cap value manager for the CRS) was on hand to discuss investment performance, investment philosophy, etc. Mr. Moller commented that detailed notes from the meeting were included in the minutes of the Investment Committee meeting.

Mr. Moller also reported that the Committee met with Linda Bradford Raschke. Ms. Rashke is president of the LBR group, a small hedge fund that specializes in trading futures contracts. Mr. Moller indicated that the investment consultant set up this meeting as an educational presentation on investments in alternative assets/hedge funds. Notes from Ms. Raschke's presentation are also included in the Investment Committee minutes.

The investment consultant provided the performance report for the 2nd quarter. In the second quarter, the total fund return was 1.86%, trailing the Cincinnati benchmark (2.03%) by 17 basis points. Year-to-date, investment returns have been 1.30%, out-performing the Cincinnati benchmark (0.75%) by 55 basis points.

Mr. Moller indicated that the Investment Committee did not have a quorum at the August 5, 2005 meeting, but the members who were present agreed that both PanAgora Asset and Mondrian Investment Advisors should be removed from the watch list. Both of these firms had been placed on the watch list due to ownership restructuring. Mr. Moller commented that the new ownership structure has not had an adverse impact on either organization, and that the Committee is comfortable that these firms have not altered their investment style or philosophy. Mr. Moller moved that PanAgora and Mondrian be removed from the watch list, Mr. Harrison seconded the motion, and the motion passed unanimously.

SECRETARY'S REPORT

Mr. Moller reported that as of July 31, 2005, the asset level of the fund was $2.42 billion, a year-to-date increase of about 1.2%. Over the past twelve month period, the asset level of the fund has increased by about 7.5%. Mr. Moller reported that the Investment Committee met on August 5, 2005.

The Secretary submitted the following report:

1. Resolution for Enrollment of New Members – Total: 36
2. Resolution for Return of Contributions & Death Benefits–
3. Total: 38 Amount: $153,414.90
4. Resolution for Loans to Members – Total: 60 Amount: $300,220.80
5. Report on Deaths of Pensioned Members – Total: 15
6. Resolution for Military Service Credit - Total: 4

The Secretary submitted the following vouchers for payment:

PAYEE	**AMOUNT**
ABS Business Products Inc. – Monthly Rental Base Rate for Copier	$180.60
Business Information Solutions Inc. – Monthly Storage of CRS files	$89.84
All Star Personnel Inc. – Temporary Personnel Services	$1,591.67
City of Cincinnati Treasurer – Reimbursement of GBA Payments	$356,135.92
Ohio Book Store, Inc. – Binding of 2004 Retirement Board Minutes	$100.00
Mae Consulting INC. – Professional Services Rendered	$280.00
Mercer Human Resource Consulting – Professional Actuary Services	$15,773.00
Parman Group Inc. – Disability Evaluations	$700.00
All Star Personnel Inc. – Temporary Personnel Services	$2,591.34
Mercer Human Resource Consulting – Professional Actuary Services	$10,809.00
State Teachers Retirement System – Reciprocity Due for Prior Service Credit	$4,882.17
Ohio Police & Fire Pension Fund – Reciprocity Due for Prior Service Credit	$78,264.41

The Secretary reported that at the close of business August 31, 2005, there was in the Treasury to the credit of the Retirement System the amount of $1,623,389.44.

Asset Valuation:

- December 31, 2004: $2.40 billion
- May 31, 2005: $2.42 billion
- YTD Increase (Decrease): (1.19%)

Current Asset Allocation: (Policy Objective)

- Domestic Equity: 52.0% (50%)
- International: 14.1% (13.5%)
- Fixed Income: 32.6% (33.5%)
- Alternative Assets/Treasury Cash: 1.3% (3%)

PENDING BUSINESS

Asset Liability Study Presentation

Mr. Neil Rue of PCA Investment Consulting and Mr. Bob McCrory of EFI Actuaries were on hand to conduct the final meeting with the Board on the Asset/Liability study. These consultants first met with the CRS Board in August 2003 to present their original data on the CRS liability projections, but the Board subsequently put the study on hold pending the outcome of the plan design changes that were being considered in early 2005. In April 2005, the Board agreed no changes would be made to the CRS plan design and that they should proceed with completing the asset/liability study using the current plan design to project the future liabilities.

Mr. Rue commented that the two primary objectives in completing the asset/liability study were to conduct an independent assessment of the actuaries projected liabilities as well as establishing an updated asset allocation policy. In order to develop an asset allocation, all Board members would be asked to prioritize various risks factors that they believe would be relevant to the success of the plan. These weighted risk factors would then be combined and then the consultants would provide the "best-fit" asset allocation to match the risk tolerance of the Board.

In the first part of the presentation, Mr. McCrory used CRS plan data from December 31, 2004 to update his liability model of the CRS plan design. Included in the information provided by Mr. McCrory is the following:

1) The CRS plan was 94% funded as of 12/31/2004.
2) The CRS plan is mature and becoming over-matures. (Retiree benefits will exceed active payroll in about two years and the retiree benefits are growing faster than the active payroll.)
3) The CRS is unique to other public pension funds due to the size and scale of its medical benefits.
4) CRS demographics are unique due to an unusually large baby boom effect.
5) Over the next 20 years, benefits paid to CRS retirees will increase from about 95% of active employee payroll to about 135% of active employee payroll.

6) If no changes are made to the CRS plan design, the employer contribution rate will bounce around the 25% level for the next forty years. If the investment returns do not meet the 8.75% actuarial assumption, the contribution rate will be even greater.
7) The employer contribution rate is very sensitive to changes in investment returns. For example, if investment returns only return 8.0% over the next twenty years, the employer contribution rate will steadily increase from 25% to more than 40% in 2025. If investment returns are 9.5% over the next twenty years, the employer contribution rate will steadily fall from 25% to less than 10% in 2025.
8) By simulating the expected returns from the current asset allocation policy, the consultants projecting an employee contribution rate of more than 52% in 2025. (This means there is a 50% chance the contribution rate will be more than 52% and a 50% chance it will be less than 52%.)
9) The simulation of annual return projections based on the current CRS asset allocation is in the 7% to 8% range over the next twenty years. The consultants commented that there is about a 33% chance returns will exceed the 8.75% return assumption and a 67% chance returns will fall short of 8.75%.

The second part of the presentation covered the asset class return assumptions. Mr. Rue commented that the return projections are based on a time frame of 10 or more years. PCA's expected annual returns, which are consistent with the projections of other major consultants and investment firms, are 9.00% for both domestic and international equities, 4.65% for fixed income, 13.00% for private equity, 7.00% for real estate, 3.75% for cash and 2.50% for inflation. Annual return volatilities are 18.50% for domestic equity, 19.00% for international equity, 7.00% for fixed income, 35.00% for private equity, 13.00% for real estate, and 2.50% for cash.

The asset classes that would be included in the portfolio selection process, and the minimum and maximum allocations for each are as follows:

Asset Class	Minimum	Maximum	Current Policy	Current Actual
U.S. Equities	34%	60%	50%	52%
International Equities	10%	20%	13.5%	14%
Fixed Income	25%	45%	33.5%	33%
Real Estate	0%	4%	3.0%	1%
Private Equity	0%	2%	0%	0%
Cash	0%	2%	0%	0%

These ranges are based on asset allocations found among CRS peer groups and allow for a reasonable range of allocations across major publicly traded asset classes. These ranges will result in the analysis of 683 potential asset allocations.

The third phase of the presentation is for each Board member to choose (by using a weighted formula) which of the following five factors they consider most important. The five decision factors are as follows:

1) Seek 100% funding at the end of 15 years.
2) Avoid a low funding ratio (less than 80%) from year 0 through year 15.

3) Seek the lowest average actuarial cost from year 0 through year 15.
4) Avoid actuarial cost spikes (greater than 75%) from year 0 through year 15.
5) Seek as high a return as possible over the next 15 years.

Mr. Rue commented that each potential asset allocation is scored on its ability to accomplish the goal described by a specific decision factor. However, the decision factors may compete against each other, so the Board must balance and prioritize the decision factors. The prioritization process will then take place through a voting process among the Board members.

After discussing the benefits and risks associated with each decision factor, each Board member assigned the weights as follows to the decision factors:

	Seek 100% funding after 15 years	Avoid funding ratio below 80%	Lowest actuarial cost	Avoid actuarial cost spikes	Seek highest investment returns
Rager	40%	25%	0%	25%	10%
Radford	35%	25%	20%	10%	10%
Moller	20%	40%	10%	20%	10%
Ryder	0%	50%	0%	0%	50%
Rachford	50%	25%	5%	10%	10%
Harrison	40%	30%	5%	5%	20%
Pickering	40%	20%	10%	10%	20%
Klug	25%	40%	10%	10%	15%
Aggregate	**31%**	**32%**	**8%**	**11%**	**18%**

Based on the aggregate weights assigned to each decision factor, the asset allocation the best scoring asset allocation to match the risk tolerance of the Board as determined by the consultant's model is 50% domestic equities, 16% international equities, 26% fixed income, 4% real estate, 2% private equity, and 2% cash.

To conclude the presentation, Mr. Rue made the following comments regarding investing in private markets and real estate:

- Allocations to these markets require a very long-term perspective.
- Policies, procedures, and guidelines for investing in these markets should be established before and specific funding decisions are made.
- If an aggregate commitment of 5%is made to these asset classes, the CRS would have to make $200 to $300 million in partnership commitments over the next several years.

Private markets are expensive. The CRS should plan for doubling the cost relative to the publicly-traded markets.

ADJOURNMENT

Upon request of the Chairman for a motion to adjourn, the motion was made by Mr. Moller, seconded by Mr. Rachford, and carried by the Board. The meeting was adjourned at approximately 2:30 p.m.